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In The
Supreme Court of the United States

PERFECT 10, INC.,

Petitioner,

v.

VISA INTERNATIONAL SERVICE ASSOCIATION, ET AL.,

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF OF THE INTERNATIONAL ANTICOUNTERFEITNG COALITION INC. AND THE AMERICAN APPAREL AND FOOTWEAR ASSOCIATION AS AMICI CURIAE IN SUPPORT OF PETITIONER

THOMAS R. FITZSIMONS
Counsel of Record
PAUL G. JUETTNER
LAURA R. WANEK
CHRISTOPHER J. MCGEEHAN
GREER, BURNS & CRAIN, LTD.
300 S. Wacker Drive
Suite 2500
Chicago, Illinois 60606
(312) 360-0080

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Pursuant to Supreme Court Rule 37.2, amici curiae respectfully file this brief in support of the petition for certiorari.

STATEMENT OF INTEREST OF AMICI CURIAE[1]

The International AntiCounterfeiting Coalition Inc. (IACC) is devoted solely to combating product counterfeiting and piracy. Formed in 1979, it includes today a cross section of business and industry – from automobiles, apparel, luxury goods and pharmaceuticals, to food, software and entertainment. The touchstone of the IACC's mission is to combat counterfeiting and piracy by promoting laws, regulations and directives designed to render the theft of intellectual property undesirable and unprofitable, as well as to educate policy makers and law enforcement about intellectual property in order to secure more effective intellectual property enforcement. Critical to the IACC's purpose is its belief that

[1] This Brief is filed with the consent of all parties. The parties' letters of consent to the filing of this brief have been filed with the Clerk. Pursuant to Rule 37.6, amici curiae disclose that no counsel for any party in this case authored this brief in whole or in part, and no person or entity, other than amici curiae IACC and AAFA, their members, or their counsel, made a monetary contribution to the preparation of the submission of this Brief. Counsel of record for all parties received notice at least 10 days prior to the due date of the amici IACC and AAFA's intention to file this Brief.

acts of counterfeiting cause not only economic harm, but severe public health and safety hazards. The IACC initiates actions and supports government initiatives that will ultimately result in increased enforcement, lead to the prosecution of intellectual property infringers, and create strong deterrents to counterfeiters and pirates.

The American Apparel & Footwear Association (AAFA) is the national trade association for apparel, footwear and other sewn-products companies and suppliers that compete in the global market. AAFA was formed in August 2000 through the merger of two highly-regarded trade associations: the American Apparel Manufacturers Association and the Footwear Industries of America. The Association's membership represents at least seventy-two percent of the Nation's apparel and footwear market at wholesale. AAFA's mission is to promote and enhance its members' competitiveness, productivity and profitability in the global market. AAFA seeks to achieve this mission by, *inter alia*, representing its members' points of view and advocating their concerns before the public and all branches of government in order to advance the association's legislative, international trade and regulatory objectives.

Petitioner Perfect 10 is not a member of either the IACC or AAFA. No Respondent is a member of IACC or AAFA.

Consistent with their stated missions, IACC and AAFA submit this brief to assist this Court's understanding of the significant impact of the Ninth Circuit's decision. The Ninth Circuit's untoward decision impacts not only the entertainment industry and its digitally transmitted products, but extends to the products of all industries beset by trademark counterfeiting. Unless this Court reviews the Ninth Circuit's decision, intellectual property owners and the public as a whole will continue to suffer increasing injury.

REASON FOR GRANTING THE WRIT

I. THE NINTH CIRCUIT CLEARLY ERRED – AND WEAKENED EFFORTS TO COMBAT PIRACY AND COUNTERFEITING – BY HOLDING THAT INTELLECTUAL PROPERTY OWNERS HAVE NO CAUSE OF ACTION AGAINST CREDIT CARD COMPANIES THAT KNOWINGLY PROCESS PAYMENTS FOR THE SALE OF COUNTERFEIT PRODUCTS

The effects of the Ninth Circuit's decision extend far beyond the facts of the instant case. While the petition and Judge Kozinski's dissent address the disastrous consequences for creators of digital products such as music, movies and software, neither addresses the ramifications of this decision on efforts to combat trademark counterfeiting involving tangible products such as pharmaceuticals, apparel and footwear. The decision below sets a dangerous

precedent in the law of secondary liability for copyright and trademark infringement. Further, the Ninth Circuit's decision creates a safe harbor for companies that provide Internet-based services that are used by their customers to infringe trademarks and copyrights. Internet-based counterfeiting is a rapidly growing cancer that undermines the economy and threatens the public welfare. The Petition should be granted, given the significant adverse impact of the Ninth Circuit decision on intellectual property rights and the public interest.

A. The Ninth Circuit erred in framing the issue of secondary trademark liability; the credit card network is an instrumentality in the sale of counterfeit products, and the credit card companies directly control illegal sales

The courts have long recognized that parties other than the direct infringer may be held liable for copyright and trademark infringement under general tort principles. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 434-41 (1984) ("vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.").

The Restatement (Second) of Torts §877(c) (1979) provides that "one is subject to liability if he ... permits the other to act upon his premises or with his

instrumentalities, knowing or having reason to know that the other is acting or will act tortiously. . . . " *Id.* The Seventh Circuit applied the Restatement rule to contributory trademark infringement in *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148-50 (7th Cir. 1992). In *Hard Rock Cafe*, the Seventh Circuit held that a flea market operator "may be liable for trademark violations [of its lessee] if it knew or had reason to know" of the violations. *Id.* at 1149. The Ninth Circuit followed *Hard Rock Cafe* in *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996) holding that "a swap meet cannot disregard its vendors' blatant trademark infringements with impunity." *Id.* at 265. The Ninth Circuit then applied the rule to service providers in *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980 (9th Cir. 1999), holding that "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark" is required to establish contributory trademark infringement. *Id.* at 983-85.

In the present case, the Ninth Circuit held, erroneously, that Perfect 10 failed to allege facts sufficient to show direct control and monitoring of the instrumentality used to infringe its trademark. *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788, 807 (9th Cir. 2007). Extending its faulty analysis of contributory copyright infringement, the Ninth Circuit concluded that the credit card network is not an instrument used to infringe Perfect 10's trademark because "the infringement" occurs without any

involvement of the credit card companies[2] and their payment system. *Id.* According to the majority, the credit card companies do not have the power to remove infringing material from the pirate websites or to directly stop distribution over the Internet. *Id.* "This without more does not constitute 'direct control.'" *Id.*

The Ninth Circuit's analysis is flawed because it focuses on copying and distribution as the gravamen of the infringement, while ignoring that the sale of goods using a counterfeit mark is an act of trademark infringement. 15 U.S.C. §1114(1)(a). Thus, the properly framed questions are whether the credit card payment processing network is an instrumentality in the sale of products bearing counterfeit trademarks, and whether the credit card companies monitor and control infringing sales. On the Internet, credit cards are instruments, the "financial lifeblood," of the infringing sales. *Id.* at 815 (Kozinski, J., dissenting). The credit card companies undeniably have "direct control" over the infringing sales for which they process payments, for without payment there is no sale.

The pertinent inquiry is not whether unauthorized reproduction and distribution of copyrighted images occurs without any involvement of the credit card companies and their payment system, or

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[2] In this Brief the Respondents are collectively referred to as the credit card companies.

whether card companies have the power to remove infringing material from the pirate websites or to directly stop distribution over the Internet. The issue is whether the credit card companies have the power to monitor and control the sale of goods bearing infringing trademarks. As the dissent correctly observed, "credit cards are directly involved in every infringing transaction . . . they control whether such transactions will go forward. This is more than enough to establish the 'control and monitoring' that *Lockheed Martin* requires for contributory trademark infringement." *Id.* at 822 (Kozinski, J., dissenting).

The imposition of secondary liability for knowingly providing an instrumentality used to infringe trademarks will not lead to a dramatic expansion of secondary liability as suggested by the Ninth Circuit majority. The majority was concerned that secondary liability would ensnare suppliers of other products, e.g., computer hardware and software. *Id.* at 800. However, these products are typically sold without knowledge that the products will be used to carry out an infringement, and the sellers lack the ability to control the use of the product post sale. The critical distinction is that payment processing on behalf of a merchant website is not an isolated transaction but a *continuing* service rendered to merchants who are under contract with the merchant banks in the credit card network.

As in *Hard Rock Cafe* and *Fonovisa*, once a credit card company has knowledge that a particular merchant is engaged in illegal activities,[3] the credit card company has a duty to cease its continuing active participation in illegal sales of counterfeit goods. The credit card companies need to "abide by their own rules and stop doing business with crooks." *Id.* at 824 (Kozinski, J., dissenting).

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[3] The credit card companies currently monitor and block other illegal sales. *See* David H. Press, *Card Association Rules and Regs 2007: Get Ready for Scrutiny*, THE GREEN SHEET, Jan. 8, 2007, at 92, 94, *available at* http://www.greensheet.com/gsonline_pdfs/070101.pdf (discussing fines levied by credit card companies against merchant account servicers who process transactions "identified as illegal, including gambling, prescription drugs, pornography and the sale of cigarettes over the Internet."). The credit card companies also monitor and audit merchant websites for compliance with their policies regarding prohibited transactions. *See* L. Richard Fischer & Russell W. Schrader, *Morality Enforcement Through Payment Systems Regulation: Overview of Federal Framework for Payment Systems Regulation and Enforcement and Industry Reaction*, American Bar Association Section of Business Law Consumer Financial Services Committee Newsletter (August 2006) *available at* http://www.abanet.org/buslaw/committees/CL230000pub/newsletter/200608/fischer.pdf.

B. Trafficking of pirated copyrighted works and counterfeit products is a significant threat to the economy, public health and National security

Counterfeiting is a significant and rapidly growing problem that touches all aspects of the Nation's economy.[4] Counterfeiting and piracy cost American companies between $200 and $250 billion a year.[5] As of 2002, counterfeiting and piracy was estimated to have resulted in the loss of 750,000 jobs.[6] The U.S. Department of Justice reports that "the trade in counterfeit merchandise threatens the health and safety of millions of Americans and costs manufacturers billions of dollars each year."[7]

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[4] President George W. Bush explained that counterfeiting both deprives businesses and government of revenue and forces the expenditure of funds to combat counterfeiting. *Remarks on Signing the Stop Counterfeiting in Manufactured Goods Act*, 42 WEEKLY COMP. PRES. DOC. 482, 483 (March 16, 2006).

[5] *Press Release*, Senator Carl Levin, *Statement of Senator Carl Levin on Intellectual Property Rights Issues and the Dangers of Counterfeited Goods Imported Into the United States* (June 18, 2007), *available at* http://www.senate.gov/~levin/newsroom/release.cfm?id=277302.

[6] *Press Release*, U.S. Customs and Border Protection, *U.S. Customs Announces International Counterfeit Case Involving Caterpillar Heavy Equipment* (May 29, 2002), *available at* http://www.cbp.gov/xp/cgov/newsroom/news_releases/archives/legacy/2002/52002/05292002.xml.

[7] Computer Crime and Intellectual Property Section, U.S. Dep't of Justice, PROSECUTING INTELLECTUAL PROPERTY CRIMES 3 (3d ed. 2006), *available at* http://www.cybercrime.gov/ipmanual/01ipma.html.

Counterfeiting affects nearly all industries, including apparel and footwear, high-tech industrial goods, medicines, automobile parts, food and beverages and cosmetics, as well as music, movies and software.[8] The ubiquity of counterfeit pharmaceuticals online has prompted the U.S. Food and Drug Administration to issue warnings to consumers regarding foreign websites selling counterfeit drugs and contraceptives.[9]

Counterfeiting is not only a threat to the economic well being and public safety of our Nation, but it also serves as a source of funds for organized crime and terrorism. The Secretary General of INTERPOL testified before the United States House Committee on International Relations, that "[t]he link between organized crime groups and counterfeit goods is well established."[10] In a November 7, 2007 speech, Senator Evan Bayh emphasized the national security dimension to the problem of trademark

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[8] Org. for Econ. Co-Operation & Dev., THE ECONOMIC IMPACT OF COUNTERFEITING AND PIRACY PART I: OVERALL ASSESSMENT §§3.8-3.11 (2007 Draft), *available at* http://www.oecd.org/dataoecd/36/36/39543399.pdf.

[9] *Press Release*, U.S. Food and Drug Admin., *FDA Warns Consumers about Counterfeit Drugs from Multiple Internet Sellers* (May 1, 2007), *available at* http://www.fda.gov/bbs/topics/NEWS/2007/NEW01623.html.

[10] *Intellectual Property Crimes: Are Proceeds from Counterfeited Goods Funding Terrorism Before the H. Comm. on Int'l Relations*, 108th Cong. 10-17 (2003) (public testimony of Ronald K. Noble, Secretary-General of INTERPOL), *available at* http://www.foreignaffairs.house.gov/archives/108/88392.pdf.

counterfeiting.[11] He noted that Al Qaeda training manuals seized in Afghanistan recommend the sale of counterfeit goods as a source of terrorist financing and that the 1993 World Trade Center bombing was partially financed through the sale of counterfeit goods.[12] Senator Bayh concluded that "we have a compelling national security interest in redoubling efforts to cut off these funding sources for terrorist organizations."[13]

C. Sale of counterfeit products via the Internet requires the participation of the credit card companies and presents a growing counterfeiting model

The Internet has eliminated impediments to the international distribution and sale of both legitimate and illegitimate goods.[14] Conventional distribution models require importers, distributors and retailers to deliver goods to consumers.[15] The Internet has ushered in a new model where manufacturers sell directly to consumers. Consumers order goods online,

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[11] *Examining U.S. Government Enforcement of Intellectual Property Rights Before the S. Comm. on the Judiciary*, 110th Cong. (2007) (statement of Sen. Evan Bayh), *available at* http://judiciary.senate.gov/testimony.cfm?id=3020&wit_id=6760.

[12] *Id.*

[13] *Id.*

[14] OECD, *supra*, at §3.53.

[15] *Id.* at §§2.33-2.54.

pay with a major credit card, and receive the product within days via air freight.[16]

The Internet is especially attractive to pirates and counterfeiters because of the ease with which they can conceal their true identities, the ability to establish pirate websites[17] anywhere in the world, and the flexibility to quickly move to jurisdictions where enforcement is lax.[18] The enormous volume of e-commerce sites allows counterfeits to evade detection.[19] Counterfeiters can reach a global audience around the clock, and can effectively deceive consumers with professional-looking websites and contrived consumer experience ratings.[20] Small-quantity air freight shipments evade detection by U.S. Customs and Border Protection.[21] The "high profitability of many counterfeiting and piracy activities which in some cases exceeds the 'profitability' of illegal drug trades, low risk of detection and relatively light penalties have provided counterfeiters with an attractive environment for the illegal activities."[22]

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[16] Computer Crime and Intellectual Property Section, *supra*, at 2.

[17] Examples of counterfeit websites are not difficult to find. An Internet search using almost any famous brand name will reveal websites selling counterfeit products that accept major credit cards.

[18] OECD, *supra*, at §3.54.

[19] *Id.*

[20] *Id.*

[21] *Id.* at §§3.63-3.64.

[22] OECD, *supra*, at §§3.77-3.88.

Intellectual property owner's traditional enforcement tools have limited effectiveness against this new and growing threat.[23]

There is a false air of legitimacy in the illegal trafficking of counterfeit goods on the Internet. Counterfeiters create websites that mimic the brand owner's legitimate site. Familiar credit card logos are a badge of legitimacy on the pirate sites. American consumers shopping the Internet from the comfort of their homes typically have no way of knowing whether a given website is based in the United States or a distant country, or whether it is authorized by the brand owner.[24] Frequently, consumers are deceived into purchasing counterfeit products with the belief that they are genuine.[25] More disturbing, some consumers may know or suspect the goods are counterfeit, but are ambivalent to the illegality of the transaction.[26] According to a recent survey by the U.S. Chamber of Commerce and The Gallup Organization, approximately one in five Americans have knowingly purchased a product that they knew or suspected to

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[23] "[P]laintiff alleges that many direct infringers have no physical presence in the United States. They operate from far-off jurisdictions, where lawsuits are difficult to bring and remedies impossible to enforce because the infringers can easily move their operations to servers in other remote jurisdictions." *Perfect 10,* 494 F.3d at 823 (Kozinski, J., dissenting).

[24] OECD, *supra*, at §§3.52-3.58.

[25] *Id.* at §2.20.

[26] *Id.*

be counterfeit.[27] Consumers purchase counterfeit products with their familiar credit cards, in the same manner that they purchase genuine products, trusting that the card will protect them from loss. ." *Perfect 10,* 494 F.3d at 817-18, n.14 (Kozinski, J., dissenting).

Credit card companies process payments for sales indifferent to the legality of the transaction. The Ninth Circuit majority conceded that "we must take as true the allegations that [the credit card companies] lend their names and logos to the offending websites and continue to allow their cards to be used to purchase infringing images despite actual knowledge of the infringement – and perhaps even bending their association rules to do so." *Perfect 10,* 494 F.3d at 802. The credit card companies are complicit. As Judge Kozinski correctly reasoned, "[t]he weak link in the pirates' nefarious scheme is their need to get paid; . . . the [credit card companies] collect billions for sellers of stolen merchandise; in a very real sense, they profit from making piracy possible. I can see no reason they should not be held responsible." *Id.* at 823 (Kozinski, J., dissenting).

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[27] U.S. Chamber of Commerce & Gallup Consultancy, COUNTERFEITING IN THE UNITED STATES: CONSUMER BEHAVIORS AND ATTITUDES 8 (2007), *available at* http://www.thetruecosts.org/portal/truecosts/resources/default (scroll down to survey).

CONCLUSION

For the foregoing reasons, this Court should grant the petition for writ of certiorari.

Respectfully submitted,

THOMAS R. FITZSIMONS
Counsel of Record
PAUL G. JUETTNER
LAURA R. WANEK
CHRISTOPHER J. MCGEEHAN
GREER, BURNS & CRAIN, LTD.
300 S. Wacker Drive
Suite 2500
Chicago, Illinois 60606
(312) 360-0080

Counsel for Amici Curiae

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